

1 York, Verizon reported a New York residential market share of 20%. This number is
2 consistent with my predictions for New Jersey based upon far less competitive conditions than
3 are present in New York. In addition, Verizon's New York long distance market penetration
4 continued to grow at a rate *higher* than the rate that the model had predicted. After 21
5 months of providing long distance service in New York, Verizon reported a New York long
6 distance residential market share of 31.7%. Based upon the level of competition in New
7 Jersey (significantly less than the level of competition in New York at the time of Verizon
8 New York interLATA entry), the model predicts that 21 months following interLATA entry,
9 Verizon New Jersey would be able to leverage its local market power into a long distance
10 market share of about 30%, *which is less than the actual 31.7% that has been reported by*
11 *Verizon in New York.*

12

13 24. Verizon's experience in New York is not anomalous. Ten months after receiving
14 271 authority in Massachusetts, Verizon reported a long distance market share of 17.9%; my
15 model predicts Verizon New Jersey interLATA PIC penetration at only 16.4% after ten
16 months. In Texas, where SBC received interLATA authority in June of 2000, SBC reported
17 that after ten months it had acquired a market share of 19%³⁵ (again, my model predicts
18 penetration for Verizon in New Jersey of only 16.4%). SBC subsequently stopped releasing
19 long distance market share figures on a state-by-state basis, making further state-level
20 comparisons no longer possible. If anything, based upon the figures Verizon is reporting for
21 New York and Massachusetts and that SBC had reported for Texas, it appears that my

22 35. A copy of the SBC Press Release is provided in Attachment 2 hereto.

1 estimate that Verizon New Jersey will control 71% of the long distance market after five
2 years was extremely conservative. Absent effective competition in the local market, Verizon's
3 continued dominance of the New Jersey local market will diminish competition and
4 potentially result in remonopolization of the New Jersey long distance market as well.

5
6 **The consumer benefits that Verizon seeks to attribute to BOC interLATA entry are**
7 **misleading and miscalculated.**
8

9 25. In its effort to satisfy the Section 272(d)(3) "public interest" requirement, Verizon
10 cites various studies undertaken by the Telecommunications Research and Action Center
11 ("TRAC") purporting to estimate consumer savings in New Jersey based upon a prior TRAC
12 study of savings "enable[d]" by Verizon New York's entry into the long distance market.³⁶
13 These studies purport to estimate total statewide consumer savings in New Jersey at between
14 \$22- and \$167-million annually. The TRAC study is not credible, nor is Verizon's character-
15 ization of its results because, as I shall show, those results are not based upon a fair or
16 consistent comparison of Verizon and IXC long distance pricing.

17
18 26. Both the theory and the methodology of the TRAC studies are seriously flawed.³⁷

19 36. Verizon Brief, at 106.

20 37. No detailed methodology is provided by TRAC in its New Jersey-specific study.
21 However, TRAC indicates that the methodology used was the same as that used in the 1999
22 and 2001 studies for New York. Thus, I have examined and relied upon the methodology
23 presented in the New York study cited at footnote 103 of Verizon's Brief in reaching my
24 conclusions about TRAC's analysis. Telecommunications Research & Action Center (TRAC),
25 (continued...)

1 First, the TRAC Study purports to determine a “range” of savings based upon a “low-end”
2 and a “high-end” estimate. The low-end estimate compares the *best* Verizon long distance
3 rate for consumers with *assumptions* made by TRAC (and apparently without any specific
4 evidentiary basis) regarding the particular calling plans that TRAC had believed that
5 residential customers likely subscribed to before switching to Verizon for long distance
6 service.

7
8 27. TRAC’s so-called “high-end” estimate is derived from a “comparison” of the *best*
9 Verizon long distance plan with *industry average* rates.³⁸ These *industry average* rates were
10 determined by calculating a simple arithmetic average of the prices being charged by the
11 “highest priced competitor” with those being charged by the “lowest priced competitor”
12 within each of the service “baskets” examined by TRAC. This approach virtually *guarantees*
13 erroneous and overstated results, since clearly not all rate plans for all companies are intended
14 or designed to be attractive to all customers. Because individual customers exhibit decidedly
15 varying calling habits, there will inevitably be some extremely high competitive rates in each
16 calling basket that are essentially irrelevant for any customer whose calling habits would
17 clearly not justify acceptance of such a plan. As an example, TRAC’s “Basket 18” includes a
18 highest priced competitor at \$349.37 and a lowest priced competitor at \$101.27. When
19 averaged, the non-Verizon price-out for this basket is \$225.32, which TRAC then compares

20 37. (...continued)
21 *15 Months After 271 Relief: A Study of Telephone Competition in New York*, April 25, 2001.
22 (“TRAC New York Study”).

23 38. TRAC New York Study, at Table 1.

1 with the “lowest priced Verizon” plan at \$138.42. On the basis of this “comparison,” TRAC
2 ascribes a net “savings” of \$86.90 (i.e., \$225.32 minus \$138.42) for customers in this basket,
3 which it then *causally attributes* to Verizon's long distance entry. Of course, that “average
4 savings” would arise only if the distribution of customers across the full range of prices in the
5 basket were uniform, i.e., where the customer is assumed to be as likely to purchase the most
6 expensive (i.e., the \$349.37) service as the least expensive (i.e., the \$101.27) service. This
7 *critical underpinning* of the TRAC methodology is obviously absurd, because customers are
8 far more likely to select providers and plans at the low end of the range than at its mid-point.
9 Thus, TRAC is comparing the lowest priced Verizon plan with an *average* inflated by pricing
10 plans that would never have even been considered, let alone adopted, by customers. If the
11 Verizon plan were compared with the *lowest priced competing service* instead of the *average*
12 of the highest and lowest, TRAC predicts that the New York savings would actually have
13 actually been a *negative \$1,368,500*.³⁹ Thus, Verizon's pricing plans, when appropriately
14 applied to consumers based upon their actual calling requirements and assuming reasonably
15 rational and informed customer behavior, indicate that Verizon's entry into the long distance
16 market provides consumers with *no competitive gain whatsoever*. By comparing the *industry*
17 *average* pricing plan to the *best* pricing plan being offered by Verizon in New York, TRAC
18 *virtually guarantees* that Verizon's offerings will portray “significant savings.” Yet if the
19 same TRAC methodology were used to compare a consumer's most beneficial AT&T, MCI or

20 39. *Id.* In the above example for Basket 18, the result for that basket would have been a
21 negative \$37.15, i.e., the Verizon “best” pricing plan is actually \$37.15 *above* the lowest
22 priced IXC plan.

1 Sprint rate plan with that same “industry average,” the IXC services would present the same
2 — or even greater — “consumer benefit” as TRAC ascribes solely to Verizon’s offerings.

3

4 28. TRAC’s “low-end estimate” compares the most advantageous Verizon plan with the
5 most advantageous plan being offered by an arithmetic average of the corresponding AT&T
6 and MCI offerings (rather than the entire IXC industry) specifically. TRAC compares
7 Verizon’s lowest price plan for a particular customer group with the lowest rates for MCI and
8 AT&T for this customer group.⁴⁰ Under this approach, TRAC ignores entirely the pricing
9 plans offered by all other IXCs, many of which have more favorable rates for some customers
10 than either MCI or AT&T. However, even after narrowing a consumer’s choices to AT&T,
11 MCI or Verizon, TRAC further ensures that its “savings” calculation is further inflated by
12 then averaging the AT&T and MCI “savings.” By performing this arithmetic sleight-of-hand,
13 “savings” from Verizon’s entry jump from \$21-million (comparing Verizon rates to AT&T
14 rates for all customers) to \$79-million (when averaging in MCI’s higher rates).⁴¹ In addition,
15 later applications of this same study contain the notation that “[t]he predictions of savings
16 drop when TRAC assumes that the consumers affected were more likely to be customers of
17 AT&T or WorldCom as those consumers were most likely already subscribers to a cost-
18 efficient calling plan.”⁴²

19

20 40. TRAC New York Study, at Table 2.

21 41. *Id.*

22 42. <http://trac.policy.net/relatives/17340.pdf>, page 11.

1 29. Thus, it appears that for the numbers in both the “low-end estimate” and the “high-
2 end estimate,” TRAC compares the *optimal* Verizon long distance plan with a less-than-
3 optimal plan being offered by a *composite* Verizon competitor. Finally, there is little or no
4 indication that Verizon actually markets its plans so as to realize the hypothetical savings
5 cited by TRAC. If Verizon markets and sells its long distance service to in-bound local
6 service customers using Verizon New Jersey local service representatives, it is much more
7 likely that those individuals will be given a “hierarchy” of calling plans to “recommend,”
8 offering a different service plan option (such as a plan with no monthly fee) only when a
9 customer rejects the plan originally offered. Any long distance carrier would be able to use
10 the same bogus TRAC methodology to claim millions of dollars in savings for consumers.
11 Such claims by Verizon, therefore, hardly constitute a consumer benefit arising from
12 Verizon's entry into the long distance market.⁴³

13

14 **Conclusion**

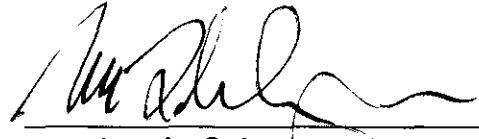
15

16 30. The factual evidence presented by Verizon New Jersey in support of its Section 271
17 Application is both inaccurate and misleading, and should be rejected by the Commission.
18 Verizon cannot escape the undeniable *fact* that there is no viable facilities-based competition
19 for residential exchange service in New Jersey at this time, irrespective of who or what is to
20 blame. Verizon grossly understates the actual level of residential revenue it presently realizes

21 43. Verizon also cites (but does not provide) a study by Dr. Jerry A. Hausman of MIT.
22 There is, however, insufficient information available to verify the validity of Dr. Hausman's
23 methodology. To the extent that his results are analogous to those of the TRAC study, it is
24 likely that flaws similar to those cited in the TRAC study exist.


1 from existing prices and pricing policies, and fails entirely to explain why that level of
2 revenue — which by Dr. Taylor’s own study is shown to exceed \$28.19 per month for more
3 than half of Verizon New Jersey’s residential subscribers — is not sufficient to incent
4 widespread competitive entry in a densely populated, relatively low-cost, heavily-urbanized
5 state with the second-highest per-capita income in the nation. Verizon’s efforts to shift
6 responsibility for the lack of entry to the New Jersey Board of Public Utilities are unfair and
7 misplaced, because Verizon’s own resistance to calling area expansion has materially
8 contributed to the existing local/toll rates and rate relationships. Verizon’s entrenched
9 dominance of the New Jersey residential market will enable Verizon to similarly come to
10 dominate the residential long distance market as well, as amply demonstrated and confirmed
11 by actual experience in the other 271 jurisdictions, and as such to diminish competition
12 therein and ultimately to increase prices for consumers. Finally, even Verizon’s attempts to
13 portray a “public interest” benefit from its interLATA entry rest upon specious and invalid
14 comparisons by TRAC, derived from a “study” whose credibility is highly questionable. For
15 all of the reasons set forth herein and in my October 22, 2001 Declaration filed with the New
16 Jersey Board, I conclude that Verizon’s entry into the New Jersey interLATA market at this
17 time would be contrary to the public interest, and should be rejected.

I certify that the foregoing statements made by me are true to the best of my knowledge, information and belief. I am aware that if any of the foregoing statements made by me are willfully false, I am subject to punishment.



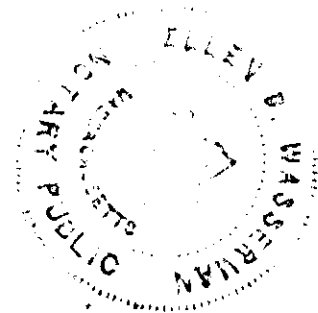
Lee L. Selwyn

Subscribed and sworn to before me this 14th day of January, 2002.



Notary Public

My commission expires 3/31/04.



Attachment 1:
Statement of Qualifications

DR. LEE L. SELWYN

Dr. Lee L. Selwyn has been actively involved in the telecommunications field for more than twenty-five years, and is an internationally recognized authority on telecommunications regulation, economics and public policy. Dr. Selwyn founded the firm of Economics and Technology, Inc. in 1972, and has served as its President since that date. He received his Ph.D. degree from the Alfred P. Sloan School of Management at the Massachusetts Institute of Technology. He also holds a Master of Science degree in Industrial Management from MIT and a Bachelor of Arts degree with honors in Economics from Queens College of the City University of New York.

Dr. Selwyn has testified as an expert on rate design, service cost analysis, form of regulation, and other telecommunications policy issues in telecommunications regulatory proceedings before some forty state commissions, the Federal Communications Commission and the Canadian Radio-television and Telecommunications Commission, among others. He has appeared as a witness on behalf of commercial organizations, non-profit institutions, as well as local, state and federal government authorities responsible for telecommunications regulation and consumer advocacy.

He has served or is now serving as a consultant to numerous state utilities commissions including those in Arizona, Minnesota, Kansas, Kentucky, the District of Columbia, Connecticut, California, Delaware, Maine, Massachusetts, New Hampshire, Vermont, New Mexico, Wisconsin and Washington State, the Office of Telecommunications Policy (Executive Office of the President), the National Telecommunications and Information Administration, the Federal Communications Commission, the Canadian Radio-television and Telecommunications Commission, the United Kingdom Office of Telecommunications, and the Secretaria de Comunicaciones y Transportes of the Republic of Mexico. He has also served as an advisor on telecommunications regulatory matters to the International Communications Association and the Ad Hoc Telecommunications Users Committee, as well as to a number of major corporate telecommunications users, information services providers, paging and cellular carriers, and specialized access services carriers.

Dr. Selwyn has presented testimony as an invited witness before the U.S. House of Representatives Subcommittee on Telecommunications, Consumer Protection and Finance and before the U.S. Senate Judiciary Committee, on subjects dealing with restructuring and deregulation of portions of the telecommunications industry.

In 1970, he was awarded a Post-Doctoral Research Grant in Public Utility Economics under a program sponsored by the American Telephone and Telegraph Company, to conduct research on the economic effects of telephone rate structures upon the computer time sharing industry. This work was conducted at Harvard University's Program on Technology and Society,

Dr. Lee L. Selwyn (continued)

where he was appointed as a Research Associate. Dr. Selwyn was also a member of the faculty at the College of Business Administration at Boston University from 1968 until 1973, where he taught courses in economics, finance and management information systems.

Dr. Selwyn has published numerous papers and articles in professional and trade journals on the subject of telecommunications service regulation, cost methodology, rate design and pricing policy. These have included:

"Taxes, Corporate Financial Policy and Return to Investors"
National Tax Journal, Vol. XX, No.4, December 1967.

"Pricing Telephone Terminal Equipment Under Competition"
Public Utilities Fortnightly, December 8, 1977.

"Deregulation, Competition, and Regulatory Responsibility in the
Telecommunications Industry"
*Presented at the 1979 Rate Symposium on Problems of Regulated Industries -
Sponsored by: The American University, Foster Associates, Inc., Missouri
Public Service Commission, University of Missouri-Columbia, Kansas City,
MO, February 11 - 14, 1979.*

"Sifting Out the Economic Costs of Terminal Equipment Services"
Telephone Engineer and Management, October 15, 1979.

"Usage-Sensitive Pricing" (with G. F. Borton)
(a three part series)
Telephony, January 7, 28, February 11, 1980.

"Perspectives on Usage-Sensitive Pricing"
Public Utilities Fortnightly, May 7, 1981.

"Diversification, Deregulation, and Increased Uncertainty in the Public Utility
Industries"
*Comments Presented at the Thirteenth Annual Conference of the Institute of
Public Utilities*, Williamsburg, VA - December 14 - 16, 1981.

"Local Telephone Pricing: Is There a Better Way?; The Costs of LMS Exceed
its Benefits: a Report on Recent U.S. Experience."
*Proceedings of a conference held at Montreal, Quebec - Sponsored by
Canadian Radio-Television and Telecommunications Commission and The
Centre for the Study of Regulated Industries, McGill University, May 2 - 4,
1984.*

Dr. Lee L. Selwyn (continued)

“Long-Run Regulation of AT&T: A Key Element of A Competitive Telecommunications Policy”
Telematics, August 1984.

“Is Equal Access an Adequate Justification for Removing Restrictions on BOC Diversification?”
Presented at the Institute of Public Utilities Eighteenth Annual Conference, Williamsburg, VA - December 8 - 10, 1986.

“Market Power and Competition Under an Equal Access Environment”
Presented at the Sixteenth Annual Conference, “Impact of Deregulation and Market Forces on Public Utilities: The Future Role of Regulation”
Institute of Public Utilities, Michigan State University, Williamsburg, VA - December 3 - 5, 1987.

“Contestable Markets: Theory vs. Fact”
Presented at the Conference on Current Issues in Telephone Regulations: Dominance and Cost Allocation in Interexchange Markets - Center for Legal and Regulatory Studies Department of Management Science and Information Systems - Graduate School of Business, University of Texas at Austin, October 5, 1987.

“The Sources and Exercise of Market Power in the Market for Interexchange Telecommunications Services”
Presented at the Nineteenth Annual Conference - “Alternatives to Traditional Regulation: Options for Reform” - Institute of Public Utilities, Michigan State University, Williamsburg, VA, December, 1987.

“Assessing Market Power and Competition in The Telecommunications Industry: Toward an Empirical Foundation for Regulatory Reform”
Federal Communications Law Journal, Vol. 40 Num. 2, April 1988.

“A Perspective on Price Caps as a Substitute for Traditional Revenue Requirements Regulation”
Presented at the Twentieth Annual Conference - “New Regulatory Concepts, Issues and Controversies” - Institute of Public Utilities, Michigan State University, Williamsburg, VA, December, 1988.

“The Sustainability of Competition in Light of New Technologies” (with D. N. Townsend and P. D. Kravtin)
Presented at the Twentieth Annual Conference - Institute of Public Utilities Michigan State University, Williamsburg, VA, December, 1988.

Dr. Lee L. Selwyn (continued)

“Adapting Telecom Regulation to Industry Change: Promoting Development Without Compromising Ratepayer Protection” (with S. C. Lundquist)
IEEE Communications Magazine, January, 1989.

“The Role of Cost Based Pricing of Telecommunications Services in the Age of Technology and Competition”
Presented at National Regulatory Research Institute Conference, Seattle, July 20, 1990.

“A Public Good/Private Good Framework for Identifying POTS Objectives for the Public Switched Network” (with Patricia D. Kravtin and Paul S. Keller)
Columbus, Ohio: *National Regulatory Research Institute*, September 1991.

“Telecommunications Regulation and Infrastructure Development: Alternative Models for the Public/Private Partnership”
Prepared for the Economic Symposium of the International Telecommunications Union Europe Telecom '92 Conference, Budapest, Hungary, October 15, 1992.

“Efficient Infrastructure Development and the Local Telephone Company's Role in Competitive Industry Environment” *Presented at the Twenty-Fourth Annual Conference, Institute of Public Utilities, Graduate School of Business, Michigan State University, “Shifting Boundaries between Regulation and Competition in Telecommunications and Energy”*, Williamsburg, VA, December 1992.

“Measurement of Telecommunications Productivity: Methods, Applications and Limitations” (with Françoise M. Clottes)
Presented at Organisation for Economic Cooperation and Development, Working Party on Telecommunication and Information Services Policies, '93 Conference “Defining Performance Indicators for Competitive Telecommunications Markets”, Paris, France, February 8-9, 1993.

“Telecommunications Investment and Economic Development: Achieving efficiency and balance among competing public policy and stakeholder interests”
Presented at the 105th Annual Convention and Regulatory Symposium, National Association of Regulatory Utility Commissioners, New York, November 18, 1993.

“The Potential for Competition in the Market for Local Telephone Services” (with David N. Townsend and Paul S. Keller)
Presented at the Organization for Economic Cooperation and Development Workshop on Telecommunication Infrastructure Competition, December 6-7, 1993.

Dr. Lee L. Selwyn (continued)

"Market Failure in Open Telecommunications Networks: Defining the new natural monopoly," *Utilities Policy*, Vol. 4, No. 1, January 1994.

The Enduring Local Bottleneck: Monopoly Power and the Local Exchange Carriers, (with Susan M. Gately, et al) a report prepared by ETI and Hatfield Associates, Inc. for AT&T, MCI and CompTel, February 1994.

Commercially Feasible Resale of Local Telecommunications Services: An Essential Step in the Transition to Effective Local Competition, (Susan M. Gately, et al) a report prepared by ETI for AT&T, July 1995.

"Efficient Public Investment in Telecommunications Infrastructure"
Land Economics, Vol 71, No.3, August 1995.

Funding Universal Service: Maximizing Penetration and Efficiency in a Competitive Local Service Environment, Lee L. Selwyn with Susan M. Baldwin, under the direction of Donald Shephard, A Time Warner Communications Policy White Paper, September 1995.

Stranded Investment and the New Regulatory Bargain, Lee L. Selwyn with Susan M. Baldwin, under the direction of Donald Shephard, A Time Warner Communications Policy White Paper, September 1995

"Market Failure in Open Telecommunications Networks: Defining the new natural monopoly," in *Networks, Infrastructure, and the New Task for Regulation*, by Werner Sichel and Donal L. Alexander, eds., University of Michigan Press, 1996.

Establishing Effective Local Exchange Competition: A Recommended Approach Based Upon an Analysis of the United States Experience, Lee L. Selwyn, paper prepared for the Canadian Cable Television Association and filed as evidence in Telecom Public Notice CRTC 95-96, Local Interconnection and Network Component, January 26, 1996.

The Cost of Universal Service, A Critical Assessment of the Benchmark Cost Model, Susan M. Baldwin with Lee L. Selwyn, a report prepared by Economics and Technology, Inc. on behalf of the National Cable Television Association and submitted with Comments in FCC Docket No. CC-96-45, April 1996.

Economic Considerations in the Evaluation of Alternative Digital Television Proposals, Lee L. Selwyn (as Economic Consultant), paper prepared for the Computer Industry Coalition on Advanced Television Service, filed with comments in FCC MM Docket No. 87-268, In the Matter of Advanced

Dr. Lee L. Selwyn (continued)

Television Systems and Their Impact Upon the Existing Television Broadcast Service, July 11, 1996.

Assessing Incumbent LEC Claims to Special Revenue Recovery Mechanisms: Revenue opportunities, market assessments, and further empirical analysis of the "Gap" between embedded and forward-looking costs, Patricia D. Kravtin and Lee L. Selwyn, In the Matter of Access Charge Reform, in CC Docket No. 96-262, January 29, 1997.

The Use of Forward-Looking Economic Cost Proxy Models, Susan M. Baldwin and Lee L. Selwyn, Economics and Technology, Inc., February 1997.

The Effect of Internet Use On The Nation's Telephone Network, Lee L. Selwyn and Joseph W. Laszlo, a report prepared for the Internet Access Coalition, July 22, 1997.

Regulatory Treatment of ILEC Operations Support Systems Costs, Lee L. Selwyn, Economics and Technology, Inc., September 1997.

The "Connecticut Experience" with Telecommunications Competition: A Case in Getting it Wrong, Lee L. Selwyn, Helen E. Golding and Susan M. Gately, Economics and Technology, Inc., February 1998.

Where Have All The Numbers Gone?: Long-term Area Code Relief Policies and the Need for Short-term Reform, prepared by Economics and Technology, Inc. for the Ad Hoc Telecommunications Users Committee, International Communications Association, March 1998.

Broken Promises: A Review of Bell Atlantic-Pennsylvania's Performance Under Chapter 30, Lee L. Selwyn, Sonia N. Jorge and Patricia D. Kravtin, Economics and Technology, Inc., June 1998.

Building A Broadband America: The Competitive Keys to the Future of the Internet, Lee L. Selwyn, Patricia D. Kravtin and Scott A. Coleman, a report prepared for the Competitive Broadband Coalition, May 1999.

Bringing Broadband to Rural America: Investment and Innovation In the Wake of the Telecom Act, Lee L. Selwyn, Scott C. Lundquist and Scott A. Coleman, a report prepared for the Competitive Broadband Coalition, September 1999.

Dr. Selwyn has been an invited speaker at numerous seminars and conferences on telecommunications regulation and policy, including meetings and workshops sponsored by the National Telecommunications and Information Administration, the National Association of

Dr. Lee L. Selwyn (continued)

Regulatory Utility Commissioners, the U.S. General Services Administration, the Institute of Public Utilities at Michigan State University, the National Regulatory Research Institute at Ohio State University, the Harvard University Program on Information Resources Policy, the Columbia University Institute for Tele-Information, the International Communications Association, the Tele-Communications Association, the Western Conference of Public Service Commissioners, at the New England, Mid-America, Southern and Western regional PUC/PSC conferences, as well as at numerous conferences and workshops sponsored by individual regulatory agencies.

Attachment 2:

**Verizon and SBC Press Releases
regarding Residential Long Distance Market Shares
in New York, Massachusetts and Texas**



Investor Briefing

April 23, 2001 | No. 225

Strong Growth in Data, Wireless and Long Distance Highlights SBC's First-Quarter Results

Economy Impacts Outlook for Remainder of 2001

SAN ANTONIO, April 23, 2001 — SBC Communications Inc. (NYSE: SBC) today reported that its primary growth drivers — data, wireless and long distance — performed strongly during the first quarter.

Highlights included:

- 39.9 percent growth in data revenues
- A net gain of 854,000 subscribers at Cingular, SBC's nationwide wireless joint venture with BellSouth
- 2.2 million long-distance lines in Texas, Oklahoma and Kansas; SBC entered the Texas long-distance market in July 2000, and the two other states in March of this year

As expected, the timing of SBC's investments in its growth initiatives during 2000 impacted first-quarter expense and earnings comparisons. The slowing U.S. economy also dampened growth. First-quarter earnings were \$1.7 billion, or \$0.51 per diluted share, before one-time

items, compared with \$1.9 billion, or \$0.56 per diluted share, in the first quarter a year ago. Operating revenues for the quarter, including results from Cingular, increased 4.7 percent to \$13.1 billion.

First-quarter revenue growth was adversely impacted by SBC's sale of Ameritech's security-monitoring business. Excluding results from this divestiture as well as shifts in directory publishing dates and the pro forma effect on the year-ago quarter of the Cingular venture, first-quarter revenues increased 6.7 percent.

Primarily because of weakening U.S. economic conditions, SBC expects earnings per share for 2001, before one-time items, in the \$2.35 to \$2.40 range.

"The economy is having a greater impact on our business than we projected," said Edward E. Whitacre Jr., SBC chairman and CEO. "We handled the first-quarter revenue

shortfall well, thanks to very disciplined expense management. Going forward, we are determined not to lose sight of our larger strategic mission — including fully developing our broadband capabilities and obtaining long-distance relief in our states as quickly as possible — and we will not compromise our long-term future to preserve near-term projections.

"Broadband is the foundation for a host of new value-added services, and we will continue to pursue it aggressively," Whitacre said. "Long distance complements our broadband strategy, and this year we have the potential to increase our long-distance opportunity from two states to eight states. Looking ahead, we will continue playing to our strengths, and our adjusted game plan for 2001 should yield a much more stable and predictable growth profile for the future."

FIRST-QUARTER RESULTS

(Dollars in millions, except per-share amounts. Results exclude one-time items. First-quarter 2001 results include proportionate Cingular results. First-quarter 2000 not restated.)

(Volumes in thousands)

	1Q01	1Q00	Change
Total operating revenues	\$13,144	\$12,553	4.7%
EBITDA	\$ 5,164	\$ 5,291	-2.4%
Earnings before extraordinary item	\$ 1,739	\$ 1,910	-9.0%
Diluted earnings per share	\$ 0.51	\$ 0.56	-8.9%
Data revenues	\$ 2,127	\$ 1,521	39.9%
Wireless subscriber revenues	\$ 1,688	\$ 1,500	12.5%
Domestic wireless subscribers ¹	20,535	17,294	18.7%
Proportionate international revenue ²	\$ 1,795	\$ 1,464	22.6%

1 - Represents total Cingular pro forma subscribers in both periods.

2 - Amounts for 2000 have been restated to exclude investments that have been sold or are no longer accounted for under the equity method.

Revenue *and* Expense trends

SBC achieves significant sequential expense and margin improvement, strong results in major growth drivers — data, wireless, long distance

SBC's first-quarter financial performance was defined by: (1) continued strong results in its major growth drivers — data, wireless and long distance; (2) solid expense management as total operating expenses declined 6.1 percent from fourth-quarter 2000 levels; and (3) lower-than-expected revenue growth due to a weakened U.S. economy and increased competition, particularly in the Ameritech region.

In the first quarter:

- Data revenues increased 39.9 percent.
- Cingular Wireless recorded a net subscriber gain of 854,000, compared with a pro forma gain of 695,000 in the first quarter a year ago.
- Total long-distance lines in Texas, Kansas and Oklahoma increased to 2.2 million, up from 1.7 million at the end of the fourth quarter. SBC began selling long-distance services in Texas in July 2000, and in Kansas and Oklahoma this March.
- Compared with the first quarter a year ago, cash operating expenses increased 9.9 percent, reflecting the timing of investments in major growth drivers in 2000. However, from fourth-quarter 2000 levels, cash operating expenses declined 7.1 percent, and SBC's EBITDA margin increased 50 basis points. These sequential improvements occurred despite the fact that first-quarter results included significant expenses to support Cingular's national branding campaign, launched in January, as well as expenses for initiatives to integrate SBC's and BellSouth's formerly separate wireless operations.
- Wireline cash operating expenses declined 7.2 percent, and the company's wireline EBITDA margin increased to 38.8 percent, up 420 basis points from fourth-quarter levels.
- Revenues grew 6.7 percent excluding the impact of the sale of Ameritech's security monitoring business, directory publishing date shifts and the year-ago pro forma effect

of Cingular. Wireline revenues increased 5.0 percent compared with the first quarter a year ago.

REVENUE DYNAMICS

SBC's lower than-expected first-quarter revenue growth in both residential and business markets was caused principally by a weakened U.S. economy, increased competitive inroads and the divestiture of Ameritech's security monitoring business.

SBC has experienced the impacts of a slower economy across its regions, with impacts in February and March being more severe than in the previous months and more severe than the company had anticipated. Across the company, inward call volumes to service centers declined with access line growth trends, particularly in residential markets. Broader economic trends — including housing starts, layoffs and bankruptcies — mirror SBC's business indicators. In California, the largest state in SBC's in-region territory, the macroeconomic impact on access line growth was exacerbated by California's energy crisis and the failure of many dot-com and high-tech startups.

AN IMPORTANT YEAR

SBC is confident in its long-term growth strategies — in data, DSL, wireless and long distance — and its focus is on building platforms in these high-potential areas that are capable of driving sustainable growth in 2002 and the years ahead.

SBC also believes that 2001 is an important year in the telecommunications industry's transformation and in its own development.

- SBC, which started this year providing long distance in two states, hopes to end the year as a long-distance provider in eight states, including the two largest in this country — Texas and California. Long distance is a linchpin to having a full set of products in both the residential and business markets.

SBC Major Revenue Growth Drivers

- Data
- Wireless
- Long Distance

- SBC also has made rapid progress in broadband and believes that in the quarters ahead it has the opportunity to expand substantially its DSL customer base. Demand for broadband services is robust, and SBC plans to be aggressive in expanding its DSL growth platform.
- At the same time, while SBC has made substantial progress on service quality issues at Ameritech, finalizing those efforts while improving the regulatory and competitive climate in the region will require continued effort.

YEAR 2001 PRIORITIES

In light of these opportunities and commitments, SBC's priorities in 2001 are:

- Aggressive execution of major growth drivers — data services, mass market broadband (DSL), nationwide wireless and long distance.
- Superior customer service — SBC believes that delivering the market's best customer service provides a critical competitive edge and forms a foundation for future growth initiatives.
- Financial strength — SBC views its financial strength and flexibility as key strategic assets. It is committed to enhancing its already strong balance sheet and solid cash flow through disciplined expense management and investment strategies designed to yield returns well in excess of the cost of capital.

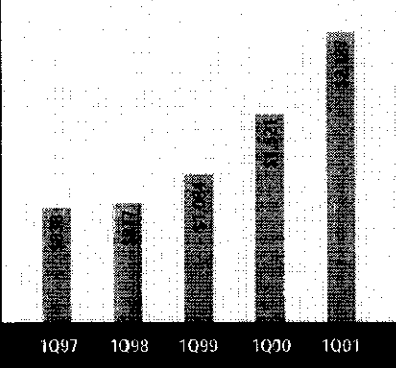
Data growth

SBC's wireline data revenues grew 39.9 percent in the first quarter — driven by high-speed transport, network integration and Internet services

In the first quarter, SBC extended its strong growth record in wireline data. Total data revenues increased 39.9 percent compared with the first quarter a year ago and exceeded \$2.1 billion dollars — nearly double SBC's data revenue stream just two years ago.

SBC Data Revenues

(Dollars in millions)



Data revenues represented 21 percent of SBC's total wireline revenues in the quarter, up from 16 percent in the first quarter a year ago.

SBC's first-quarter data growth highlights included:

- Core data transport products, including DS3s and ATM, sustained their strong growth rates.
- SONET revenues also continued their strong growth, as demand from enterprise customers for high-bandwidth solutions continues to expand rapidly.
- Revenues from integration services were up as well, as enterprise companies continue to turn to SBC for a range of network analysis, planning and security solutions.
- Strong growth in Internet services revenues also continued as SBC and its subsidiary Sterling Commerce expanded e-business solutions for the small-business market while SBC added to its Web-hosting operations. SBC currently hosts the Web sites of more than 21,000 businesses, nearly double its total a year ago.

DATA GROWTH INITIATIVES

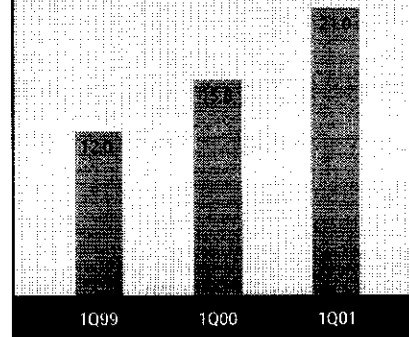
SBC continues to drive growth by migrating customers to higher-speed services and longer-term commitments and by expanding capabilities in attractive market segments.

For example, in the first quarter SBC:

- Launched GigaMAN service in the Southwestern Bell and Pacific Bell regions. The service, which provides high-bandwidth LAN links within a metropolitan area, already has proven very successful in the Ameritech region.
- Expanded sales of its "OnLine Office" bundle of DSL, Internet access, e-mail accounts and Web-hosting services for small businesses. This high-value package helps a wide range of businesses participate more easily in the e-economy through informational Web sites, online catalogs and transaction tools. Sales of OnLine Office have increased dramatically during the past two quarters due in part to mainstreaming the product's sales force to include more than 4,000 general sales people.
- Continued to see strong results from its major sales and marketing alliance with Cisco Systems, which was launched in the second quarter of 2000.
- Launched its second Internet Data Center (IDC). The newest center, in Irvine, California, follows the successful opening of its sister IDC in Dallas in the third quarter of last year. In addition, SBC launched its new WebHosting.com line of dedicated hosting products. SBC acquired a controlling interest in the parent company of WebHosting.com in the third quarter of last year.
- Moved to increase its international data capabilities by developing a frame relay service to Mexico, which is expected to be available in the second quarter, and by adding three virtual border crossings along the Rio Grande region of Texas, which should further increase the sale of private lines to Mexico.

Revenue Mix

Data revenues as a percent of total wireline revenues



SBC Data Revenues

(Dollars in millions)

	1Q01	1Q00	Change
Data transport	\$1,534	\$1,190	28.9%
Advanced services	\$ 593	\$ 331	79.4%
Total data revenues	\$2,127	\$1,521	39.9%

DSL growth

Total DSL subscribers reach 954,000 at end of quarter; systems advances improve provisioning, quality of customer experience

In the first quarter, SBC made substantial advances in broadband, further strengthening its position as the nation's leading provider of DSL services.

SBC views DSL as a key growth platform for the future — capable of delivering a host of entertainment, information and time management services as well as high-speed Internet access to both residential and business customers. During the past few months, SBC's conviction that DSL holds huge potential as a strategic growth driver has been reinforced by market research.

During the first quarter, SBC:

- Expanded its DSL in-service subscriber base to 954,000.
- Achieved significant improvements in provisioning, operating efficiency and overall customer experience. Due date intervals now average less than 10 business days, and 90 percent of orders are completed on or before their original due dates.
- Further broadened its addressable market through its Project Pronto network build-out. At the end of first quarter, SBC was able to reach 21.7 million customer locations, or more than 50 percent of the company's customer base with its DSL service, up from 12.9 million locations just one year ago.

"Over the past two quarters, SBC has elevated the quality of customers' broadband experience," said Ed Whitacre. "While we are only two years into broadband and still have considerable work to do, demand is strong, per-customer financial metrics are improving, and we are confident in our business model — which is every bit as promising as wireless was in its first years. SBC plans to continue to be aggressive in expanding its DSL growth platform."

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**EDWARD E. WHITACRE JR.
CHAIRMAN AND CEO**

CUSTOMER GROWTH

SBC's emphasis in the first quarter has been on improved operating efficiencies and enhanced quality for the overall customer experience — both critical foundations for aggressive growth in DSL.

Gross install levels in the first quarter were consistent with results in the fourth quarter, and SBC's net subscriber gain of 187,000 represents a solid extension of recent momentum in light of two factors. Database reconciliations made possible by enhancements to automated systems added to the number of disconnects attributed to this quarter. In addition, during the first quarter, SBC changed its bundled offer of a DSL-ready Compaq PC plus Internet access over DSL, launched in July 2000, so that customers purchased the PC from Compaq rather than as part of a seamless offer. This change resulted in significantly slower sales of the bundle. Excluding the impact of these two factors, SBC's daily net gain in subscribers would have been in the 3,500 – 4,000 range, as expected.

Market trends continue to be positive.

The company's most recent research found that in the competitive broadband marketplace SBC maintains its composite leading position in five key service areas — Dallas, Houston, Los Angeles, San Francisco and San Antonio.

Going forward, SBC anticipates volatility in quarterly customer growth numbers as it completes the transition of its customer base to automated systems and as a limited number of ISP (Internet Service Provider) resellers and DSL providers work their way through widely reported financial difficulties. Because more than 80 percent of its DSL customer base obtains Internet access service directly from an SBC entity or affiliate, SBC has limited exposure to ISP financial failure. Nevertheless, a few ISPs' restructuring or closing operations in a quarter could significantly distort that quarter's growth statistics. Over time, SBC expects to continue to be the DSL provider for many of these ISPs' customers — including temporarily displaced customers — whether these ISPs successfully restructure, transition their customers to more stable ISPs or cease operations altogether.

STRONG DEMAND

Demand for DSL services continues to be robust and is expected to grow significantly over the next few years. At the end of 2000, there were more than 6 million U.S. residential customers accessing the Internet through a broadband connection and that number is expected to grow to more than 28 million customers in 2004, according to industry analyst firm Gartner Dataquest. Other recent independent studies have projected even higher totals for residential and small-business customers combined.

Moreover, customers who adopt broadband are passionate in their commitment to the service. Broadband Watch, a new survey

sponsored by SBC Communications designed to check the pulse of today's broadband users, found that residential DSL users spend an average of 25 hours a week online, compared with just 7.5 hours with dial-up Internet service. Broadband Watch, which surveyed customers in SBC's 13-state region, also found that DSL service and the PC have already become the two most important household technologies for customers. Nearly all respondents (96 percent) consider their high-speed Internet access to be an important household technology, more significant than the microwave (88 percent), remote control (87 percent), VCR (81 percent), cable TV (70 percent), and their garage door opener (59 percent).

Looking ahead, the research found that there is growing anticipation for emerging high-speed Internet access products and services. More than two-thirds of the respondents expressed interest in future applications and content such as distance learning (71 percent), video-on-demand (70 percent), videoconferencing (69 percent) and home networking (66 percent).

SUSTAINED DSL LEADERSHIP: MAJOR FOCUS AREAS

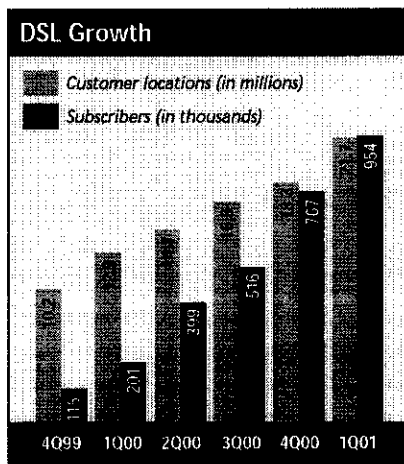
In addition to continued expansion of its customer base, SBC continues to make excellent progress in areas that are critical to realizing the tremendous potential of its DSL platform:

Improved Financial Metrics —

Improved provisioning and added scale already have improved significantly the economics of DSL, and SBC expects continued advances over the next two years. During the past six months, SBC's DSL subscriber acquisition costs have declined more than 25 percent. Going forward, expenses are expected to decline further due to additional process improvements and declining costs for modems and other DSL equipment. At the same time, per-customer revenue growth is expected to be driven by new revenue-generating applications and by a shift in subscriber mix to higher-revenue business customers who purchase premium speeds and multiple IP services.

Expanded Addressable Market — SBC continues to move rapidly with Project Pronto, and the central thrusts of this deployment for its DSL service are reaching more potential customers and moving many more customers into the 14,000-feet-and-under zone. This zone offers superior financial characteristics and a greatly enhanced overall broadband customer experience. Because of regulatory delays, SBC was behind plan in remote terminal deployment in 2000, which impacted both the pace and the initial economics of its DSL initiative.

At the end of first quarter, SBC's total potential broadband customer base reached 21.7 million locations, up from 12.9 million locations just one year ago. SBC has deployed DSL enabling equipment in nearly 1,300 of its central offices, representing more than 90 percent of the company's targeted level for this aspect of Project



Pronto, and all of these central offices have capacity to support new orders. In addition, SBC now has nearly 3,000 Broadband Neighborhood Gateways in service but has suspended their DSL-related deployment in Illinois due to regulatory issues in that state.

Enhanced Customer Experience —

SBC continues to make good progress making DSL easier, faster and more efficient to install. In the first quarter, nearly 70 percent of new subscribers used self-install. Over the past six months, the percentage of automated order flow-through at SBC's data subsidiary has more than doubled. These process improvements combined with the success of self-installs has enabled SBC to reduce average due date intervals more than 50 percent since September. A key to further enhancing customers' broadband experience is the availability of new applications, and SBC expects to begin trials of several in the coming months.

Wireless growth

Cingular adds 854,000 subscribers in quarter to reach 20.5 million, service revenues increase 14.8 percent

Cingular Wireless delivered strong growth in the first quarter as it introduced new services and launched a national campaign establishing its new brand. A joint venture of SBC and BellSouth, Cingular is the United States' second-largest wireless provider, has 20.5 million subscribers and covers markets encompassing a total population of 192 million. SBC owns 60 percent of the joint venture.

Cingular first-quarter highlights include:

- An 854,000 net gain in subscribers, compared with a 695,000 pro forma net gain in the first quarter a year ago and 814,000 subscribers added in the fourth quarter of 2000. Cingular's cellular and PCS customer base grew 18.7 percent from pro forma levels at the end of the first quarter a year ago.
- A 14.8 percent increase in wireless service revenues to \$3.1 billion, compared with pro forma results for the first quarter of 2000.
- An 84,000 increase in subscribers at Cingular Interactive. Over the past year, Cingular Interactive's customer base has more than doubled. Cingular Interactive, formerly BellSouth Wireless Data, provides advanced two-way messaging, customized content services and transaction applications to customers throughout the United States, and it covers more than 93 percent of the urban business population.

Cingular Focus

- 20.5 million subscribers
- 192 million POPs
- 43 of top 50 U.S. markets
- \$3.3 billion in revenues (1Q01)
- \$972 million EBITDA (1Q01)
- SBC ownership – 60 percent

x cingular
WIRELESS

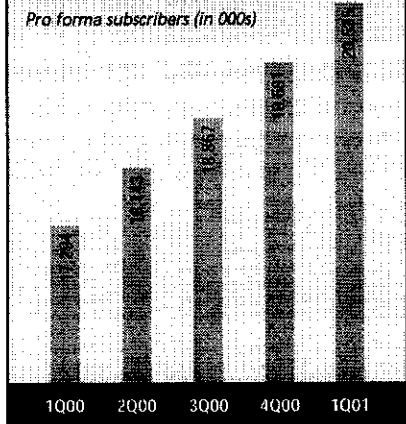
Cingular's first-quarter EBITDA margin was 31.7 percent, up more than 300 basis points from fourth-quarter 2000 levels and down from a pro forma 35 percent in the first quarter a year ago. This lower EBITDA margin was driven primarily by higher levels of gross subscriber additions as well as higher cash expenses for marketing and advertising related to Cingular's national branding campaign and for merger-related and integration initiatives. Cingular began operation in the fourth quarter of last year and kicked off its branding initiative in January.

NEW SERVICES, MARKET EXPANSION

In addition to its strong subscriber growth, during the past three months Cingular took important steps to expand its growth potential:

- In January the company launched its nationwide brand with high-profile and highly effective mass media advertising.
- To broaden its geographic reach, in early March, Cingular launched service in the Seattle and Spokane markets with an all-digital GSM (global system for mobile communications) network and 50 stores, more than any other carrier in this market.
- Also in the first quarter, Salmon PCS, of which Cingular is an 85 percent non-controlling equity owner, was a winner of spectrum in the recent 1900 MHz band auction covering approximately 77 million POPs; 28 million of these POPs are in markets where Cingular currently has no presence. The additional spectrum has the potential to add capacity in major existing Cingular markets such as Atlanta, Boston, Dallas, Houston and Washington, D.C., as well as in new markets including Denver, Minneapolis and Pittsburgh.

Cingular: Total Domestic Wireless Subscribers



- In early April, Cingular advanced its integration and customer service objectives by announcing plans to consolidate and streamline customer service functions. New, multifunctional regional centers will replace small centers and will handle inbound and outbound customer service, collections, credit, activations, roaming and technical support. Cingular also is consolidating regional distribution centers into a single, more efficient facility.
- In March, the company announced "Cingular Wireless Internet Express," the first operational standards-based General Packet Radio Service (GPRS) in the United States. The service provides customers in Cingular's GSM markets with faster wireless access to e-mail, Internet, games and other services.
- Cingular also announced the launch of the first Hispanic wireless Internet portal offered by a wireless carrier in the United States. Cingular already is a leading wireless provider in nine of the country's top 10 Hispanic metropolitan area markets.

x cingular
WIRELESS

Cingular pro forma financial statements are available in the Investor Relations section of SBC's Web site.
www.sbc.com

Long-Distance *growth*

SBC launches long-distance service in two states, ends first quarter with 2.2 million lines in Texas, Kansas and Oklahoma

In the first quarter, SBC sustained its strong growth in the Texas long-distance market, launched service in two additional states — Kansas and Oklahoma — and won state commission approval to file with the FCC (Federal Communications Commission) to enter the Missouri market. SBC is the first of the former regional Bell companies to gain long-distance approvals in multiple states.

SBC views interLATA long distance as a key growth driver for the future — adding to its bundles of services for residential and small-business customers and greatly expanding its ability to deliver packages of data services for larger enterprises with more sophisticated communications requirements.

SBC's long-distance business model is built on positive economics — combining increased revenues per customer with an attractive cost structure. The company's long-distance support systems for billing and customer service are already in place, its mix of sales channels is efficient, and SBC has an attractive nationwide transport alliance with Williams Communications Group, the United States' largest next-generation long-distance network.

WINNING WITH CUSTOMERS

SBC's Southwestern Bell Long Distance unit began marketing services in Texas on July 10, 2000. At the end of the first quarter, less than nine months after launch, it had won more than 2.1 million lines. Southwestern Bell has approximately 10 million access lines in Texas, and the state's total long-distance market is estimated at \$7.7 billion annually.

In March, Southwestern Bell Long Distance added to its array of services for customers in Texas with its introduction of SuperMexico "block-of-time" monthly plans that offer calls to neighboring Mexico for flat, highly competitive rates. According to the FCC, Mexico is the second most frequently called international destination by U.S. consumers. Currently more than 50 percent of Southwestern Bell Long Distance international calls are placed to Mexico, making it the most called country by the company's subscribers in Texas.

On March 7, the company launched long-distance service in Kansas and Oklahoma, and on a percentage basis its initial sales pace in these states has been comparable to its early growth in Texas. Southwestern Bell has more than 3 million access lines in the two states.

Southwestern Bell's flagship offer in Kansas and Oklahoma is a stand-alone basic rate of 10 cents a minute. Customers who purchase Southwestern Bell long distance as part of a "Simple Solutions" package of vertical calling services receive a rate of 8 cents a minute. The company also offers calling-card services, international calling and a range of plans for business customers.

MISSOURI APPLICATION, ADDITIONAL STATES

On April 4, SBC formally asked the FCC for permission to offer long-distance services in Missouri. The filing followed unanimous endorsement of SBC's application by the Missouri Public Service Commission in March. SBC expects the FCC to rule by July.

SBC continues to make good progress in additional states and expects to gain approvals for long-distance launches in California, Nevada and Arkansas this year. Independent systems testing is under way in each of the Ameritech states, and based on current progress, Michigan is expected to be the first of those states to file an application with the FCC.

Long-Distance Market Estimates
(SBC's in-region, 12-state)

Region	Estimated total long-distance market revenues
SOUTHWESTERN BELL	
Texas, Kansas, Oklahoma	\$8.7 billion
Missouri, Arkansas	\$2.0 billion
PACIFIC BELL/NEVADA BELL	
California, Nevada	\$16.9 billion
AMERITECH	
Illinois, Indiana, Ohio, Michigan, Wisconsin	\$21.2 billion
TOTAL 12-STATES	\$48.8 billion